EXPLORING LINKAGES BETWEEN INCLUSIVE CAPITALISM AND VALUE MAXIMIZATION OF STAKEHOLDERS: AN EMPIRICAL STUDY

SYNOPSIS

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"Capitalism is the best possible economic system that is run solely on greed, and it is a responsibility of government on how to ensure that greed would do the least harm to the society"

Milton Friedman

1.0 INTRODUCTION

The ideology of capitalism evolved during 18th century. It can be aligned with the concept of the industrial revolution. As per Phillips Deane affluence is closely related with industrial revolution. Industrial Revolution is a progression from an agrarian economy to the economy dominated by machine and manufacturing. Industrial Revolution changed the domestic system to machine oriented system. It led to evolving small scale production towards mass production. Modern capitalism arose in the early 19th century in western European countries, the United States of America and Oceania and it pushed Japan towards industrialization after the Meiji Restoration (1868). Capitalism spread rapidly in the world. Stage I of capitalist dispersion was the profits. Exploitation through slavery, colonization and military pressure resulting in causalities, and the exploitation of society and wealth of laggard countries. It prevailed strong for two centuries. Stage II of capitalism was the era of colonial rule, and it was based on imperial possessions. Where the Europeans initiated coercion of labour, statism, and other penetrating non-market mechanism. Most of the colonized countries use open trade and investment to gain national independence. Stage III of capitalism was the radical nature of capitalism challenging traditional society with respect to landed nobility, religious authorities, foreign conquerors, and upper castes who ruled over indigenous society. The rich opt for contaminated capitalism or rejected capitalism in order to stabilize market for better profits. Stage IV initiated with the end of First World War which led towards The Great Depression. It destroyed market systems. The colonial expansion prevailing in the world failed due to losses that occurred in World War I. With the rise in inflation and market failure, Keynes and Friedman came to the forefront and contributed towards capitalism. Here a paradigm shift in capitalism was observed and societal values were considered. Capitalism constantly changed. It has been the dynamic concept. The philosophy of capitalism in West influenced Eastern ideology for the enhancement and betterment of the society. This ideology has been focused and recognized internationally.

The United Nations Sustainable Development Goals (SDG's) incorporates various countries to achieve

equality, eradicate poverty and promote inclusive prosperity. Inclusive capitalism works on the maxim of inclusive prosperity. Corporates have been sensitized using C.K. Prahalad philosophy of “the bottom of the economic pyramid” (BOP) for achieving growth and sustainability while serving the poor. Concerning the demand side, companies are involved in innovative solutions to gain market share, customer base and increase in revenue of the firm. While on the supply side, corporates are expanding their respective supply base to meet volume targets reducing risk and achieving long-term cost savings for themselves. In 2014 Ministry of Corporate Affairs, Government of India adopted provision of Corporate Social Responsibility under section 135 of the Companies Act, 2013. It promoted the concept of being sensitive towards society and inclusiveness. Many top-tier companies have acknowledged that focus on socially, financially and economically is not wrong but delivering values to clients/customers, fair dealing with suppliers, investing in employees, supporting communities and preserving the environment- all of these derive long-term values for all the company’s stakeholder. Here it becomes important to mention that stakeholders are integral part of any economic system and cannot be ignored. Stakeholders of companies includes Shareholders, Board of directors, Management, Employees, Customers, Creditors, Suppliers, Investors, Government regulatory authorities and host community (Wogu, 2016). For any decision taken by firm the stakeholders are impacted, therefore a firm should make decisions in accordance with the welfare of stakeholders and should consider their long-term can lead towards the value maximization.

1.1 Inclusive Capitalism

Inclusive and Capitalism are viewed as historical anomaly. 'Inclusive' here means to provide uniform and equal approach to resources and opportunities for people such that none should be excluded (Tweedie, 2022). While capitalism is referred to as (IMF) " an economic system in which private actors own and control property in accord with their interest, and demand and supply freely set prices in a way that can serve the best interests of society." Thus, inclusive capitalism is fundamentally about private companies and provides equal and uniform access to people in a way that promotes inclusion. Company creates values for all the stakeholders, where equality for opportunity, equitable outcomes, fairness across generations and fairness in society prevails. Inclusive capitalism is a departure from classical thought of maximizing profit. At present times companies use economies of scale to promote

economic equality and betterment of the society. Additionally pillars of Inclusive Capitalism are Principles of Governance, People, Planet and Prosperity (Identified by World Economic Forum).

According to Accenture (2019), companies with the objective of inclusive prosperity are achieving profits, growing faster, more mainstreaming and an evolving innovation and advancing capabilities to implore inclusive business strategically. Companies invest in inclusive business model generate scalable social impact. Companies accomplish their inclusive business model through governance mechanism.

1.2 Governance Mechanism

For inclusive capitalism a robust governance mechanism is required. Governance Mechanism refers to the system of processes, customs, laws and institutions by which organizations and corporations are directed and controlled. Governance mechanism works to accomplish the goals and objectives of the corporations and govern the relationship among actors like the board of directors and the shareholders. Appropriate governance mechanism in organizations is required for building the sustainable investment environment, which is essential parameter for survival and growth in present times. For the business firms to progress sustainable initiatives on a part of entrepreneurs are required which will share the profits with all.

1.3 Stakeholders Approach

Stakeholder is an individual, party or group that has interests and concerns with any decision or activity of a corporation and organizations. The stakeholders in a corporation are its employees, investors, shareholders, board of directors, management, suppliers, creditors, government regulatory authorities and host community (Wogu, 2016). The common ground for the above-mentioned stakeholders are transparency, accountability, fairness and responsibility. The stakeholder approach is a practice formulated and implemented by managers to serve stakeholders needs, delivers value to the path of long-term success. Which focuses on the inter-connected relationship between a business and its actors like employees, investors, shareholders, board of directors, management, suppliers, creditors, government regulatory authorities and host community in this regard the task of executives is to manage stakeholders in order to maximize value without any tradeoffs.

1.4 Value Maximization

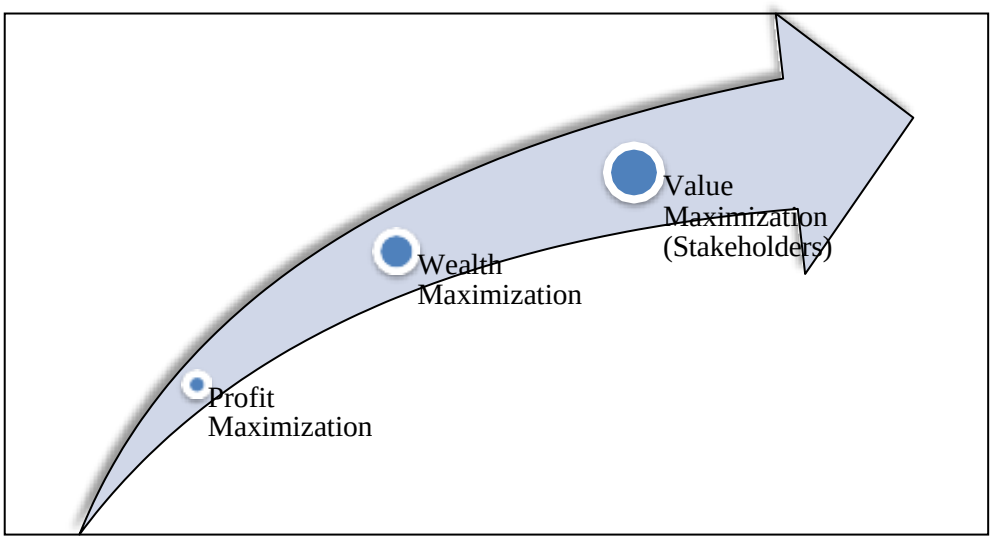

Figure 1: Capitalism Evolving Towards Value Maximization of Stakeholders Overtime

"Source: Self- constructed"

The Value Maximization aims to maximize value of all the stakeholders in a firm regard financing, investment and dividend decisions. Short-term profit maximization objective is the opportunity cost that firm has to bear for increasing long-term gains. Companies profit maximization notion has been shifted to wealth maximization notion to value maximization; as companies with the objective of value maximization purpose implant in their core business pursuits that have achieved (Accenture, 2019) faster job creation, quicker share price growth and faster revenue growth. It also considers performance improvement, greater innovation, increasing motivation of employees, more decentralization, fewer regulatory fines and lower cost of capital. Therefore, profit maximization maxim has been transformed into value maximization.

1.5 Economic Equality

The entire concepts explained here are directed towards a single dimension economic equality. It is believed that entrepreneur take resources from society and make money. So, it becomes a part of thismanagement that that they give it back to society in being philanthropic lies the truth of sustainability. In this scenario, poverty alleviation seems difficult to attain through growth alone, India should focus on the structural factors and the inclusive capitalism is suitable to increase value maximization of stakeholders through advance governance mechanism that is an attempt to reduce poverty and promote economic equality.

1.6 Conceptual Framework

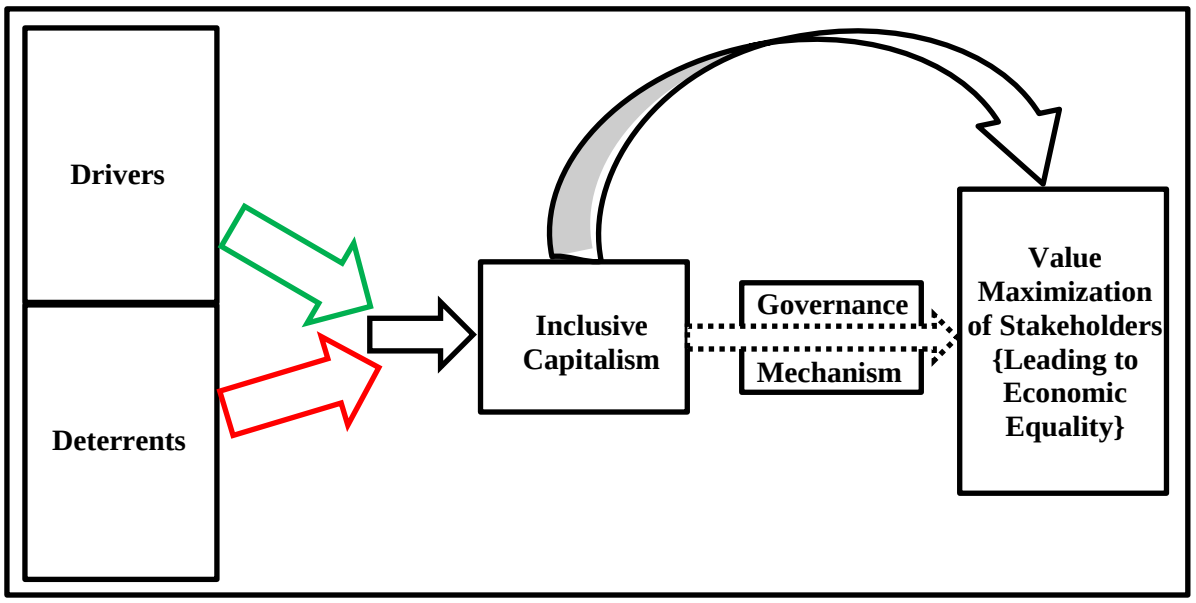

Figure 2: Self Constructed Conceptual Framework

The growing role of companies in development approach initiated great interest in corporations. Similarly inclusive capitalism is strategically relevant to the value maximization of the stakeholders. The ultimate value maximization is possible when the jobs at every step are collectively maximized as per their own defined standards. In case of the inclusive capitalism - the governance mechanism, plays a catalytic role that smoothens the inclusive capitalism operations. Governance mechanism is considered as strategic planning in case of inclusive capitalism, to enhance value maximization of all the stakeholders which primarily leads to economic equality. Although we have popular models for inclusiveness adoption but there is need to analyze the fit between the drivers and deterrents of inclusive capitalism. In the above model Inclusive Capitalism plays a centric role. The drivers of inclusive capitalism are the prime factors which positively affect value maximization. Therefore drivers can be called as push factors which determine inclusive capitalism whereas deterrents mentioned in the model are the pull factors which hinder the promulgation of inclusive capitalism. As per the model two aspects will be used to explore the linkage between inclusive capitalism and value maximization:

I. The inclusive capitalism directly affects value maximization of stakeholders leading to economic

equality.

II. The inclusive capitalism impacts value maximization of stakeholders through governance mechanism, which act as a mediation variable.

2.0 REVIEW OF LITERATURE

The review of literature for the proposed research is carried out to comprehend the concepts and insights of inclusive capitalism in India. The reviewed literature has the been categorized into Inclusive Capitalism, Value Maximization, Corporate Governance and Corporate Social Responsibility and Economic Equality. The reviewed literature comprises of twelve papers and two reports that focuses on the inclusive capitalism. Inclusive capitalism is the emergence of a new purpose paradigm in Economics and business administration. Resulting in long-term profitability and public policy which plays an important role in shaping markets and way forward to a more inclusive future (Jong, 2021). There must be quick implementation of the social responsibility of policies in corporate organizations to achieve long-term success. Corporates should acknowledge the merit of corporate partners as well as non- corporate partners for more inclusive capitalism. As financial performance of a corporate is not the only technique to gain success (Okafor, 2017). In the present time numerous companies have adopted business for inclusiveness through constructive solutions related to subjects like livelihood, poverty, healthcare, security, etc. for those living in the middle and subsistence income level group (Desai, 2014).

The notion of inclusive capitalism is impelling after COVID-19 pandemic, economies facing increasing inequality in both livelihood essentials and life. Since the rise of inclusive capitalism, it is acknowledged as one of the sustainability pillars at Allianz Global Investors. Moreover, investors are the drivers of inclusive capitalism if investment is induced for an equal world leading to widen opportunities (Pappassavvas and Rupa, 2022). Another study focuses on a more inclusive capitalism with special reference to bottom of the pyramid leading to the loftiest of our global goal (Prahalad, Coimbatore, et. al., 2002). Further (Rasid ,2017) push forward Bottom of the Pyramid approach allows firm to generate profits and states how Bottom of the Pyramid approach contributes to the marginalized group. The study is related to Bangladesh and follows information and communication technologies (ICTs) providing internet surface for people at an unprecedented level fostering 'inclusion' in

developing countries like Bangladesh. In addition, Ashord (2021) discusses inclusive capitalism with respect to the principle of full employment and per capita growth. It can be done by democratizing the institutions of Corporate Finance with the future earnings of capital. The author relates the principles with corporate capital investment, understanding of elementary math's for comprehending and percepts from widely shared literature on history of economic thought. Essentially, in any type of company whether private on public, acceptance of inclusive capitalism practices targets employees and improves profit which also benefit all the stakeholders. Report further derives three pillars of principles, organized under gain sharing, opportunity and expensive for government businesses and investment to achieve goals (Coalition for Inclusive Capitalism, 2021). After identifying (Coalition for Inclusive Capitalism, 2019) drivers of sustainable and inclusive growth the study analyses how human capital boosts query about the company's stated value induced regulator interest. In addition, The Human Capital Deployment (HCD) metrics is efficient, flexible, comparable, and material, with the minimal disclosure cost with respect to anticipated economic returns, generating a better business understanding and socio- inclusiveness. It is apparent that corporate decision-making process is related to different stakeholders inducing capitalism for everyone, inclusive capitalism comes with win- win situation, and if we fail to achieve inclusive capitalism, we will all pay a price (Klement, 2021). According to (Said Business School, 2020) corporations are influenced by the shaping ideas of senior executives' leader and educators. A landscape of eight influential strategies were addressed in the study Three "core" strategies which includes: "Network/Convene leaders, Movement Building/ Community Organizing and Research/ Thought leadership". While five were considered as "supporting" strategies: Policy Advocacy, Incubate New Standard/Organizational Firms, Business Education, Public Engagement of Additionally Services. Furthermore, research recognizes five dimensions of inclusion are economic inclusion, social inclusion, political inclusion, human development and environmental sustainability addressing inequality, poverty and quality of life.

Inclusive capitalism shareholder proposal mechanism induces equality, sustainability, broadly shared growth and prosperity; enhancing the earning of the companies, their employees, shareholders and customers. Secondly the value of equity investment and risk of borrowing and lastly is credit worthiness of respective countries government and government revenue (Padfield, 2016).

Nevertheless, government endorses the interest of all members of society and has authority to execute responsibilities in an approach that ensures sound money, carrying laws, allowing fair taxation, upright government spending and impending monopoly. These conditions can lead to enterprise and personal freedom. As a result, inclusive political and economic policy can be persuaded by an Inclusive Economic Policy Independence (Green, 2017). On the whole, inclusive capitalism approach completes the cycle "environmental-production-income and distribution-consumption" which links sustainable consumption and production. Whereas income is earned from wages and capital holding it also deals with which environment is impacted from human production of goods and services (Hall and Raganathan, 2021).

The reviewed literature comprises of nine papers that revolve around value maximization of the firm and all its stakeholders. Value Maximization is the long-term profit process of the firm that leads resource distribution decisions of firms while trading-off with short-term profit maximization of the firm. But generating the value for all the stakeholders is more laborious than considering value maximization as an organizational principle (Jensen, 2001). But the expansion of value maximization depends on the production technique, capital budgeting decisions which determine the fixed cost and variable cost of the firm. If the approach is capital intensive, then fixed cost of the firm will have large proportion and vice versa (Tripathi, 2019). Moreover, (Argandoña, 2011) Identified six types of values economic extrinsic value, intangible extrinsic value, psychological intrinsic value, transcendent value, intrinsic value, value consists of both positive or negative externalities. Most importantly creating organizational value by considering the stake of all members helps in value maximization thereby adhering to value creation principle. It makes the obligatory tradeoffs between the stakeholders, especially in the long run (Jensen, 2000). (Mori, 2010) Identifies the different types of micro-finance stakeholders which focuses on different roles the stakeholders play in order to make decisions which can maximize value. These stakeholders include clients, government employees, creditors, donors and owners. Stakeholder theory is a main contender of the value maximization constraint. Paper came up with a new concept of "Enlightenment value maximization" as an extension of stakeholder theory, which considers all corporate stakeholders' interest in the long run value maximization of a firm considering all the necessary trade off amidst stakeholders (Jensen, 2001). In addition, (Deng, Xin,

et.al., 2013) discusses two perspectives i.e., the stakeholder expense perspective and the stakeholder value maximization perspective; further paper analyses the mergers by high corporate governance practices and acquires to generate higher announcement stock yields of the acquirer and for value bearing portfolios of the acquirer, increase operating performance and stock returns in long run and smaller duration of deal closing. To summarize, measuring stakeholder capitalism mechanism allows corporations to orient their goals to the long-term goals which are likely to alleviate long-term sustainability, common metrics and consistent reporting of sustainable value creation for the economy, society and the planet (World Economic Forum, 2020). Therefore, a corporate that takes measures with "social responsibility" is suitable with consumer's sovereignty and capitalism. Moreover, corporate responsibility is to amplify the societal concerns (Haralambides, 2004).

Four papers have been reviewed related to corporate governance (CG) and Corporate Social Responsibility (CSR). Corporate Social Responsibility (CSR) goes parallel with corporate strategy is controlled and measured by top management. A balance scorecard approach for measuring Corporate Social Responsibility (CSR) performance with the suitable blend of performance indicators includes four views i.e., customer service, financial results, organizational growth and business processes (Panayiotou, Aravossis, et.al., 2009). Additionally, (Minari and Rahayu, 2019) the paper analyses the effect of profit management was positive in managing firm's value. The good corporate governance mechanism is controlled by the independent board of institutional ownership and commission influence the firm value. Haldar and Rao (2013) developed a corporate governance index for Indian firms based on corporate governance mechanism i.e., board of directors, the board committee, the audit committee and disclosure practices. The following research indicates the governance reforms prevalent in Indian market and how it proactively encourages regulators to catalyzed further reforms. As a consequence, a sustainable company include continuing efforts in the equilibrium between value creation for everyone and stakeholders' expectations. Stages of sustainable value creation are; first stage includes leadership commitment i.e., integrate corporate social responsibility. Second stage is related with identify on of the new corporate to conquer and observe the Corporate Social Responsibility (CSR) objectives. Consequently, integrated corporate social responsibility is a governance model aimed at coordinated, systematic, efficient and effective execution of a sustainable approach (Salvoni and

Gennari, 2017).

Six papers are reviewed which are related to economic equality through inclusive capitalism. Inclusive is not an adjective it's a progression to the achievement of ecological, social and relational inclusiveness and it aims at down scaling of over-accumulation and over-consumption by the global centers leading towards vicious cycle of privatization, lean states and externalization (Rammelt and Gupta, 2021). States the importance of corporate role in minimizing the wealth gap and enhancing the rising mobility of marginalized workers. With time, corporates are moving towards philanthro-capitalism from inequity to inclusive prosperity (Mirvis, 2020). The inclusive growth can be further divided into four categories initiatives that enhance competition by decreasing inequalities of opportunities, initiatives that enhance aggregate demand, initiatives that decrease and productive inequalities by decreasing rent payments., initiatives that protect employ family against the tremor of inequalities. Capitalism with the Centre of social inclusiveness is favored today (Borko, 2016). Inclusive capitalism compensates a wide spread of workers. Relationship amongst employees and employer can be changed using policies like Employees Stock Options Plans (ESOPS), 401(k)s Company stocks, work cooperatives, stock options, Employees Stock Purchase Plans (ESPPs), profit sharing, gain sharing (Madland, Walter, et.al, 2014). However Universal Basic Income (UBI) which is another government program provides economic stability and improves income. Further this approach explains the increasing environmental impact an aggregate demand for goods and services (Hall and Ashford, 2019). Answering economic inequality other than with populism by implementing organized policy actions by Inclusive Development Index (IDI) is another aspect taken for study. In this regard good governance is a solution for large investor, operating self-building policy eco-system and facilitator for both capital and labor (Lou, 2020).

3.0 RESEARCH QUESTIONS

The study aims at answering the following research questions:

- **Question 1**: How the concept of Capitalism has transformed over a period of time?
- **Question 2**: Which factors are drivers and deterrents of Inclusive Capitalism in India?
- **Question 3**: Does Inclusive Capitalism actually impacts Value Maximization of stakeholders;

leading to economic equality?

- **Question 4**: What is the role of Governance Mechanism? Is there any link between Inclusive Capitalism, Value Maximization and Economic Equality?

4.0 NEED OF THE STUDY

Capitalism is an economic system in which private performers own and control property in accord with their interest. The essential feature of capitalism is to make profit. With the passage of time the greed of capitalist started hampering the interest of the stakeholders and the interest of society was compromised.

The new school of thought came from western world which propagated the philosophy of capitalism where a central premise was that businesses should serve all significant stakeholders. Many forms of capitalism emerged over time and became popular, but the inequality could not be addressed.

Then came the concept of inclusive capitalism which is a kind of a policy movement that addresses income and wealth inequality. Since inclusive capitalism is a way forward to crony capitalism and many corporates are working on corporate social responsibility. Lot of research work is done in the area of Inclusive capitalism but there is dearth of research initiatives in Indian context. This instilled the interest in the researcher to study this concept and its implications in Indian context.

5.0 RESEARCH METHODOLOGY

5.1 Nature of the Study: The study requires in depth knowledge and analysis of data; in this regard the research would be descriptive and exploratory in nature.

5.2 Objectives of the Study

The proposed research is aimed at accomplishing the following objectives:

- **Objective 1**: To study the current status of Inclusive Capitalism in India.
- **Objective 2**: To identify the drivers and deterrents of Inclusive Capitalism.
- **Objective 3**: To study the impact of Inclusive Capitalism on Value Maximization of stakeholders leading to economic equality.
- **Objective 4:** To study the importance and implications of Governance Mechanism as a mediating variable between Inclusive Capitalism and Value Maximization leading to economic equality.

Table 1: Techniques to Achieve Specific Objective

OBJECTIVES	METHODOLOGY	TOOLS
Objective 1: To study the current status of Inclusive Capitalism in India	On the basis of Secondary data.	Content Analysis
Objective 2: To identify the drivers and deterrents of Inclusive Capitalism.	The sampling frame is limited to 20 companies. •**Stage 1(a):** Identification of 100 large- cap companies from Bombay Stock Exchange (BSE) •**Stage 1(b):** Identification of top 100 Indian companies based on best CSR practices and expenditure incurred therein. •**Stage 1(c):** Identification of top 100 Indian firms based on best corporate government practices. •**Stage 2:** Filtering 20 (Rolandus Salciunas, 2017) firms which fulfill all the three criteria. •**Stage 3**: Sample size based on a formula of Godden 2004; a total of 400 of respondents will be identified across all 20 firms. From each firm Purposive sampling technique will be used to draw sample. Further 20 respondents will be identified which are a part of governance mechanism and Corporate Social Responsibility formulation/ implementation. Pilot Study will be done to identify the most preferred factors affecting Inclusive Capitalism.	Exploratory Factor Analysis
Objective 3: To study the impact of Inclusive Capitalism on Value Maximization of stakeholders leading to economic equality.	To list out the stakeholders of every business firm. For every stakeholder parameters will be identified for measuring Value Maximization. The parameters will be identified from Secondary Data.	Regression, Correlation and Chi-Square Test
Objective 4: To study the importance and implications of Governance Mechanism as a mediating variable between Inclusive Capitalism and Value Maximization leading to Economic Equality.	Corporate Governance of each business firm will be studied. Questionnaire will be administered to 20 employees of every business firm. Annual reports will be studied for understanding the governance mechanism.	Content Analysis and Corporate Governance Index for Listed Indian Companies (Haldar and Rao, 2013) will be used.

5.3 Hypothesis of The Study

- **H1**: The drivers and deterrents do not have any significant impact on Inclusive Capitalism.
- **H2**: Inclusive Capitalism practices do not have any relationship with Value Maximization.

- **H3:** Inclusive Capitalism practices do not have any relationship with the Governance Mechanism.

5.4 Sampling Technique: Multi-stage sampling technique will be used for selecting companies and respondents.

5.5 Sampling Frame: The sampling frame is limited to 20 companies. This number is adapted from the methodology of Rolandus Salciunas, 2017. The selection of the company is done in different stages. Indian companies understudy will be selected using the following the criteria:

- **Stage 1(a)**: Identification of 100 large-cap companies from Bombay Stock Exchange (BSE).
- **Stage 1(b):** Identification of top 100 Indian companies on the best CSR practices and expenditure incurred therein.
- **Stage 1(c)**: Identification of top 100 Indian firms based on best corporate government practices.
- **Stage 2:** Filtering 20 firms which are common in all the three criteria.
- **Stage 3:** Sample size calculation of finite population i.e., 384 (Godden,2004)

Sample size calculation:

For respondent: Taking a statistical approach to calculate sample size (n) of the infinite population (more than 10,00,000) When the population estimate is unknown, a precision rate and confidence level technique is utilized to arrive at a representative number of respondents. (Godden, 2004). Determination of the sample size based on finite population correction is as follows:

$$n' = \frac{NZ^2P(1-P)}{d^2(N-1) + Z^2P(1-P)}$$

Where,

n'=Sample size with finite population correction,

N = Population size

Z = Z statistic for a level of confidence (1.96)

P = Expected proportion (0.5),

d = Precision (in proportion of one) (0.05)

Therefore,

$$n' = 385 \approx 400$$

5.6 Data collection

Primary Data: Primary data will be collected from the employees of identified 20 companies (which has been mentioned in section 5.5).

20 respondents will be selected from each firm using Purposive sampling; where only those employees will be a part of sample who are either a part of governance mechanism and/or are closely connected with formulation and implementation of CSR practices. The data will be collected using well-structured questionnaire and interviews. The questionnaire will be prepared to know whether inclusive capitalism has any link with value maximization of different stakeholders or not and how is it bringing economic equality. The questionnaire method will help in measuring, describing, and drawing inferences.

Secondary Data: The secondary data will be collected from companies' website, annual reports, journals, books, newspaper articles, government reports, etc.

5.7 Tools and techniques to be used (proposed)

- Karl Pearson Coefficient of Correlation
- Regression Analysis
- Percentage, Mean, Standard Deviation
- Structural Equation Modelling (SEM)
- Causal Loop Diagram (CLD)

6.0 PROPOSED CHAPTERIZATION

The proposed research will contain the following chapters:

- **Chapter 1:** Introduction
- **Chapter 2:** Review of Literature
- **Chapter 3:** Research Methodology
- **Chapter 4:** Analysis of Factors Affecting Inclusive Capitalism
- **Chapter 5:** Analysis of the Impact of Inclusive Capitalism on Value Maximization of Stakeholders (leading to economic equality)

- **Chapter 6:** Analysis of the Governance Mechanism as a mediating variable between Inclusive Capitalism and Value Maximization
- **Chapter 7:** Results, Findings and Conclusion
- Bibliography and references

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